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No. 07-1068

IN THE

Supreme Court of the United States

NUCLEONICS, INC.,

Petitioner,

v.

BENITEC AUSTRALIA, LTD.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

REPLY BRIEF FOR PETITIONER

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INTRODUCTION AND SUMMARY OF REPLY

Petitioner Nucleonics, Inc. herein replies to Respondent Benitec Australia Ltd.'s Opposition to Nucleonics' Petition for a writ of certiorari.

Benitec attempts to characterize the present case as factually unique and complex and thus supposedly ill-suited as a vehicle for elucidation of Article III declaratory judgment jurisdiction. That is not the case. The issues presented by Petitioner are clear cut and transcend any supposed factual complexity that Benitec would mire them in. Indeed, taking Benitec's version of the facts as unassailable and fully supported by the record—which is not the case—does not in any way remove the fundamental Article III jurisdictional issue. Specifically:

> Can a party bring a patent infringement suit (telling the world that they have made a Rule 11 determination of infringement); withdraw that suit (for whatever reason) without prejudice; *retain* the *right* to *sue again* on the *same patent* and the *same allegedly infringing technology*; continue inflicting *present-day economic harm*; and nonetheless proclaim that the matter is "entirely terminated" and that the federal courts are stripped of jurisdiction to hear the invalidity counterclaim?

Whether *Cardinal Chemical*, *Altvater* and/or *MedImmune* permit jurisdiction under the present and analogous circumstances (as

Nucleonics urges) are real questions that need to be addressed—both to do justice in this case and to set out a rule of law that does not allow patentees to game the federal court system and inhibit innovation.

The dissent in the Federal Circuit recognized that jurisdiction should exist. Similarly, a line of cases from other Circuit Courts of Appeal—including *Leach v. Ross Heater & Mfg. Co.*, 104 F.2d 88 (2d Cir. 1939) (cited by this Court in *Altvater*) and numerous other cases cited in Nucleonics' Petition (at 20-21, 26) and below—have found counterclaim jurisdiction under virtually identical or analogous circumstances. Benitec's Opposition is absolutely silent about those cases.

Instead, Benitec proffers a myriad of irrelevant supposed detailed facts regarding: why they chose to withdraw their suit (be it a belief of temporary "safe harbor" status or a fear of invalidity); whether they have the power to sue over animal activity (something they had in fact sued over); whether their patent will have different (or even invalid) claims in the future after potentially years of re-examination in the Patent Office on issues different from those before the federal courts; and the exacting date (September 29, 2005) when Benitec's "covenant not to sue" ends and subsequent activities are at risk (Opp. at 12).

Petitioner respectfully submits that the real and transcendent legal issue here is whether a patentee can use federal litigation to bludgeon a competitor and then, in the face of adverse litigation events, temporarily withdraw,

retaining the threat of future action and the reality of present-day economic harm and coercion flowing therefrom (App. at 60a-62a) with no consequences for the patent. That issue should not be obscured here. A writ of certiorari should issue.

We reply in greater detail below to Benitec's legal and "factual" assertions.

Point I: *Cardinal Chemical* and *Altvater* Apply and Mandate Jurisdiction

Benitec proffers two basic arguments regarding *Cardinal Chemical Co. v. Morton Int'l, Inc.*, 508 U.S. 83 (1993) and *Altvater v. Freeman*, 319 U.S. 359 (1943): (1) that Benitec's withdrawal without prejudice and without a covenant as to future activities *ipso facto* "entirely terminated" the controversy; and (2) that *Cardinal Chemical* and *Altvater* should not apply to district court jurisdiction where there has been no "judgment". (Opp. at 23-26).

First, Petitioner respectfully submits that the failure to covenant not to sue again on the same patent and the same technology—the only technology that Nucleonics practices—having already sued and made statements to the investing community about Nucleonics' infringement (Pet. at 5; App. at 52a), where present-day economic harm continues, cannot credibly be called "entire termination" of the controversy. *MedImmune* furthers this conclusion by recognizing that an imminent lawsuit is not required for declaratory jurisdiction. It is the threat of the patent—particularly where a suit has already been brought—and the economic

harm/coercion flowing therefrom that creates jurisdiction here. This controversy is not "entirely terminated."

Second, accepting that a judgment of non-infringement guarantees continuing jurisdiction over invalidity counterclaims (Opp. at i and 24-26), does not mean that the absence of a judgment precludes jurisdiction.

To the contrary, case law and logic urge—as did the Federal Circuit dissent (App. at 30a-32a)—that *Cardinal Chemical* and *Altvater* apply more broadly and allow for district court jurisdiction over counterclaims prior to judgment.

Benitec provides no satisfactory rationale for a constitutional distinction between a judgment of non-infringement and an "intervening event" (such as plaintiff withdrawing its infringement case)—arguing primarily that a judgment requires "great effort and expense". (Opp. at 25). However, if that is the test, then on-going economic harm after a protracted and costly district court litigation should also qualify for a finding of jurisdiction. The proposition that a patentee can avoid judgment by withdrawing (without prejudice) before judgment is an exercise in boot-strap circuitous logic. It allows the patentee to proclaim by fiat that jurisdiction has ended, without wholly resolving the controversy.

Numerous courts have recognized jurisdiction over invalidity counterclaims where a patentee attempts to withdraw their infringement case. (Pet. at 20-21, 24-26). In

Leach v. Ross Heater & Mfg. Co., 104 F.2d 88 (2d Cir. 1939), which was cited by *Altvater*, plaintiff's dismissal of the infringement action in the district court prior to any judgment did not moot invalidity counterclaims. *Hawley Prods. Co. v. United States Trunk Co.*, 259 F.2d 69 (1st Cir. 1958), cited *Altvater* and stated:

> Thus, although it might well be thought that to hold a patent invalid once it has been found not infringed would also be to decide a hypothetical case, the ***law since the Altvater case is settled*** that a court retains jurisdiction to hold a patent invalid ***even*** after it has been found not infringed. . . .
>
> when the [counterclaim] for a declaratory judgment was brought there certainly was an actual concrete dispute between the parties . . .
>
> ***And that dispute was not wholly laid at rest by the assertion . . . that by change of mind the charge of infringement had been dropped.***

Id. at 75-77 (emphasis added). *Hawley* parallels *Cardinal Chemical*'s "entirely terminated" language ("wholly laid at rest"); and cites *Altvater* as the ***extreme*** example for finding jurisdiction—where non-infringement had been adjudged ("*even*" then). *See also Lackner Co. v. Quehl Sign Co.*, 145 F.2d 932, 934 (6th Cir. 1944) ("In [*Altvater v. Freeman*] there was a decision of noninfringement, but nevertheless the Supreme

Court held that the counterclaim attacking validity was not disposed of by dismissal of the bill. Here, as pointed out, there has been no decision of noninfringement, and infringement is still asserted."); *Knaust Bros. v. Goldschlag*, 28 F. Supp. 188, 190-91 (S.D.N.Y. 1939)[1], *aff'd*, 119 F.2d 1022 (2d Cir. 1941). Thus, Benitec's "judgment" distinction is contrary to earlier cases that observed that a judgment of non-infringement, if anything, weakened the case for finding jurisdiction.

Benitec offers no comment on *Leach* or its progeny. Instead, they correctly state that the Federal Circuit has repeatedly refused to apply *Cardinal Chemical* and its analytic framework to issues of district court jurisdiction. (Opp. at 24). Of course, that only highlights the divide between the Federal Circuit's approach and that of the dissent in this case; that of other Circuit Courts; this Court's own citation to *Cardinal Chemical* in its *MedImmune* decision regarding

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[1] "I do not think that in the case of a patent, which is a claim of monopoly hanging over a trade, the plaintiff can suddenly, at the last moment, withdraw his claim of infringement and then claim, as the plaintiff's counsel now seeks to do, that the question of the validity has become moot. *Lewis Invisible Stitch Machine Co. v. Columbia Blindstitch Machine Mfg. Corp.*, D.C., 22 F. Supp. 705, 708, 709, and cf. *Basevi v. Edward O'Toole Co.*, D.C., 26 F. Supp. 41, 44 applying the same principle to copyrights. I think the plaintiff itself created a controversy by asserting the validity of the four claims of that patent and an infringement thereof. *Meiniecke v. Eagle Druggist Supply Co., Inc.*, D.C., 19 F. Supp. 523, 525. Inasmuch as a controversy was thus created by itself, the plaintiff cannot now, having once blown hot, be allowed to blow cold and claim that there was not any controversy."

district court jurisdiction (Pet. at 26); and what we believe is a proper reading of *Cardinal Chemical* itself.

At a minimum, whether *Cardinal Chemical* and *Altvater* apply, or should be extended to apply, to district court jurisdiction over invalidity counterclaims is ripe for decision by this Court—and is presented squarely by this case. Nothing in Article III, *Cardinal Chemical* or *Altvater* supports the proposition that patentee plaintiffs can bring suit, harass a defendant with their patent and then withdraw unscathed only to threaten suit again in the future, while inflicting present-day economic harm. Such a result would be anathema.

Respondent Benitec has not "entirely terminated" the present controversy. The invalidity counterclaims should be heard.

Point II: Benitec's and the Federal Circuit's "Immediacy [of Litigation]" Interpretation of *MedImmune*

Benitec argues that the "intervening event" of *Merck v. Integra*, 545 U.S. 193 (2005), made the *present litigation* not viable—a point never actually ruled upon by the District Court. (Opp. at 8-9, 27-28). Accepting this, *arguendo*, it does ***not*** follow that there is not a controversy of "sufficient immediacy and reality".

The flaw in Benitec's and the Federal Circuit's reasoning is simply that it equates a controversy singularly with an imminent litigation. That is the very proposition refuted in *MedImmune*, 127 S. Ct. 764 (2007). (Pet. at 28-30).

The "immediacy and reality" of the controversy here flows from the *present-day* economic harm being inflicted on Nucleonics. It flows from the *present-day* fact that Nucleonics must decide, *now*, whether to abandon *all* its activities or pursue them at risk—because *all* of its activities were broadly accused of infringement. Nucleonics must "bet the farm" as *MedImmune* so aptly put it.

In response, Benitec urges that we do not know what the future will bring and what future products Nucleonics will advance and hence what litigation will follow.[2] However, Benitec has asserted that an entire category of technology infringes, irrespective of temporary safe harbors. Consequently, Nucleonics faces the choice of pursuing that technology *now* or abandoning that technology *now*. Investors in Nucleonics face a similar choice.

There exists real economic harm and coercion *today* flowing from a legal controversy over the Benitec patent—even if an infringement lawsuit cannot be brought at this moment. Jurisdiction exists under *MedImmune*.

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[2] However, *Cardinal Chemical* noted that concerns about "similar products in the future" favor jurisdiction. *Cardinal Chemical*, 508 U.S. at 99-100 (quoted by the Federal Circuit dissent). *See also Hawley Products*, 259 F.2d at 76.

Point III: Brief Responses to Assorted Benitec Non-Sequitor "Facts"

A. The *Merck v. Integra* Safe Harbor Diversion

Benitec urges that the parties (a year before *Merck v. Integra*, 545 U.S. 193 (2005), and subsequent business and litigation developments) agreed that all of Nucleonics' human gene-silencing efforts and non-veterinary animal efforts are within the infringement safe harbor.

1. Transcendent Issues

Assuming Benitec is correct, the fundamental question of whether being in the safe harbor, in and of itself, should vitiate **counterclaim** jurisdiction remains. That question transcends the issue of whether the temporary safe harbor from litigation applies or not.

2. No Actual Judgment of "Safe Harbor" Non-Infringement

Furthermore, the District Court *never* issued a judgment that Nucleonics' activities were, as a matter of law, within the safe harbor.[3] This case ended because Benitec withdrew. "Safe harbor" status is ultimately a question of statutory law. 35 U.S.C. 271(e)(1); *Abtox, Inc. v. Exitron Corp.*, 122 F.3d 1019, 1028 (Fed. Cir. 1997). Questions of law cannot be stipulated by the parties. *Swift & Co. v. Hocking Valley Ry.*

[3] If there was a *judgment* of safe harbor non-infringement, Benitec should agree that *Cardinal Chemical* and *Altvater* apply.

Co., 243 U.S. 281, 289 (1917) ("If the stipulation is to be treated as an agreement concerning the legal effect of admitted facts, it is obviously inoperative; since the court cannot be controlled by agreement of counsel on a subsidiary question of law.").

3. The "Safe Harbor" Goes Only To The Merits

Even had there been a true judgment that Nucleonics' activities were within the temporary safe harbor, it would not bear on jurisdiction. *MedImmune* emphasizes the important distinction between disposing of a litigation on its "merits" and divesting a court of jurisdiction, stating:

> Of course even if respondents were correct that the licensing agreement or the common-law rule precludes this suit, the consequence would be that respondent would win this case *on the merits*—not that the very genuine contract dispute disappears, so that Article III jurisdiction is somehow defeated.

MedImmune, 127 S. Ct. at 776. This exacting observation is of direct relevance to the effect of *Merck v. Integra* on jurisdiction in the present case. While *Merck* may mean there is no present infringement, that goes only to the *merits* of Benitec's lawsuit with respect to infringement. It should not divest jurisdiction over invalidity counterclaims.

Merck v. Integra's "safe harbor" does not eliminate future liability from infringement, it simply postpones the time when liability begins. During the interim, when the putative infringer is shielded from patent liability, they are not shielded from other hardships that justify jurisdiction—such as the need to choose today to pursue or abandon the *already-accused* technology and the chill on investment resulting from fear of future patent liability for the same type of acts already sued upon.

Article III should not be seen to turn a blind eye to those present-day hardships. The very purpose of the infringement "safe harbor" was to promote innovation and research, not to hinder it by allowing invalid patents to wreak havoc unchallenged. It was not meant as a "safe harbor" for the patentee when they have already sued.

In sum, this issue is a "red-herring".

B. The Record Below As Regards *MedImmune* "Coerced Abstention"

The record below was formed well before *MedImmune* when no one comprehended the full relevance of abstained-from activities. Nonetheless, it contains *uncontradicted* sworn statements showing that Nucleonics lost a major contract with a major pharmaceutical company when it withdrew due to concerns about this litigation. (Pet. at 30-32; App. at 60a-61a).[4]

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[4] Benitec's suggestion (Opp. at 11) that it is impossible for any pharmaceutical research—even very preliminary basic biological inquiry—to be outside of the temporary safe harbor is, we would submit, inconsistent with this Court's holding in

If the record below is somehow unclear (Opp. at 11), a factual remand would have been appropriate given the change in the law created by *MedImmune*. *Cf. Sulzer Textil A.G. v. Picanol N.V.*, 358 F.3d 1356, 1369 (Fed. Cir. 2004). This option was noted to the Federal Circuit.

Beyond that, Nucleonics faces a "bet-the-farm" decision with respect to *all* of its accused endeavors going forward. *MedImmune* applies.

C. Benitec's "Animal Activity" Diversion

In the District Court, Benitec accused Nucleonics' animal activities of infringement in this litigation. (Pet. at 6). Safe harbor activity or not, Benitec clearly believed they had the right to assert the patent.

Benitec specifically refused to covenant not to sue on animal activity when questioned during the Federal Circuit argument. (Pet. at 16).

Benitec has *all litigation* rights—irrespective of "the right to practice". (Opp. at 33-34).

Benitec stated in an Annual Report that:

> Benitec's patent estate represents a dominant position . . . in RNAi

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Merck v. Integra. Benitec's accusation that Petitioner is "disingenuous" regarding the abstained-from activity being outside the safe harbor (Opp. at 35-36) is wrong. Petitioner's previous statements regarding actual activity and the safe harbor pertained to just that—actual ongoing activity. The abstained-from activity was stopped from going forward because of concerns that it was not in the safe harbor.

> application for ***humans and mammals***.

(App. at 51a).

Regardless, if needed, Benitec's co-owner CSIRO can be joined as a co-plaintiff.

This "issue" formed no basis for the decisions below.

It is a non-issue.

D. Benitec's "Re-Examination" Diversion

Benitec's patent has been in Patent Office re-examination since 2004. However, re-examination never divests Article III jurisdiction.

Courts routinely hear patent litigations despite simultaneous re-examinations (which can take many years to conclude)—particularly where the issues before the court are different from those before the Patent Office.[5] The inequitable conduct inventorship issue here is solely before the District Court.

This "issue" formed no basis for the decisions below.

Again, this is a non-issue.

Point IV: This Case Is Well-Situated for Review

Contrary to Benitec's disparate assertions, this case is neither singularly limited to its

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[5] *VisKase Corp. v. American Nat'l Can*, 261 F.3d 1316, 1327-28 (Fed. Cir. 2001).

particular facts[6] (Opp. at 1, 15) nor does it call for a sweeping holding (Opp. at 19-20) that all patentees be subject to declaratory judgment actions per se.

At a minimum, a plaintiff who sues and will not fully walk away from future litigation against a defendant whose entire business is devoted to the accused technology, thereby inflicting economic harm, should be seen to subject his patent to scrutiny. A contrary rule would allow invalid patents to be wielded with impunity to the detriment of innovation and economy.

The Court can judiciously resolve this case, while clarifying apparent rifts in the case law and more clearly defining the scope of Article III jurisdiction.

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[6] Since our last writing in late December 2007 (Pet. at 19 n.8), the number of lower court cases citing the Federal Circuit's decision in *Benitec v. Nucleonics*, 495 F.3d 1340 (Fed. Cir. 2007), has increased from eleven to twenty.

CONCLUSION

For the reasons stated here and previously, the petition for a writ of certiorari should be granted.

Dated: March 28, 2008

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